

Oil Market : 2017 - The Year That Was...

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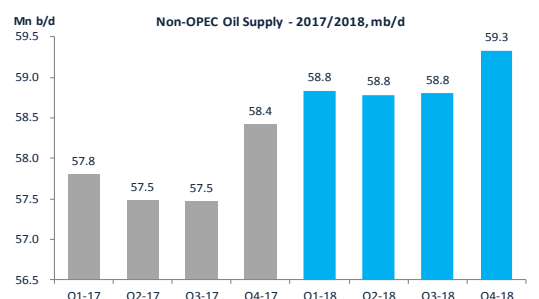
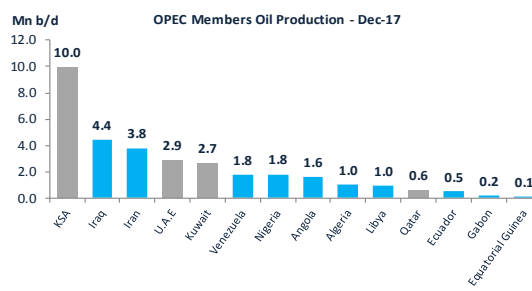
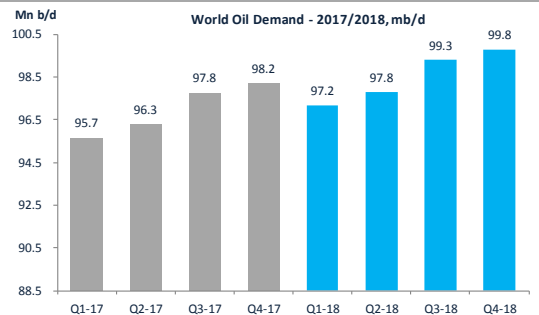
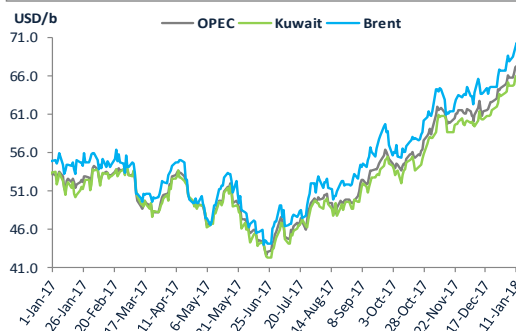
Oil price reaches 3-year high on declining inventory and supply...

Oil prices reached highest levels seen in 3 years as Brent crude touched USD 70/b at the start of 2018. Key drivers are supply issues in Libya, ongoing issues in Venezuela that has affected supply from OPEC members and declining inventory in the US, although US supply is expected to increase to an almost 5-decade high in 2018. American data have consistently reported huge drawdown of inventory in the US. The most recent weekly inventory report from API showed an inventory draw of 5.121 million barrels following a more than double inventory draw of 11.19 million barrel during the previous week.

The consistent decline in inventories came on the back of a drop in US oil production due to the cold weather in the US that has affected some oil facilities. The weekly report published by the EIA also pointed to a huge draw of 6.9 million barrels, a ninth consecutive week of decline, further supporting oil prices. Commercial inventories in the US is now projected to be around 413 million barrels, the lowest level since February-15. However, the decline is expected to be only temporary and producers in the US would be encouraged to take advantage of the rise in oil prices. Moreover, according to projections mentioned in EIA's latest Short Term Energy Outlook (STEO), US crude production is set to reach 10.3 mb/d in 2018 and even higher to 11 mb/d by late 2019, rivaling Russia's production levels. However, prices were little affected by these projections as the oil market is currently undergoing a tightening of supplies.

Supply side factors that supported oil prices also included a decline in oil production in Libya due to a pipeline disruption during the last week of December-17 that resulted in a decline in production from the country by almost 100 tb/d, although it was restored after almost a week. In addition, threats to oil supply from Nigeria have also affected prices recently. The protests in Iran was also one of the closely watched events during the last few weeks.

Demand side factors have also supported higher oil prices. The EIA report pointed to higher oil demand in 2018 by an additional 100 tb/d as compared to the previous prediction for 2018, while demand in 2019 is expected to be at 101.8 mb/d, an increase of 1.65 mb/d from 2018. Manufacturing activity around the world has gained pace supported by higher demand from developing markets and this has affected commodity prices in general. Unemployment rates in the US and Germany, two key industrialized nations, have dropped recently to record lows indicating higher industrial activity. In addition, the latest tax reforms in the US is expected to spur faster economic activity and corporate profitability, that augurs well for the already positive trend in vehicle sales. In Asia, Bloomberg data suggested a consistent rise in oil demand from China during 2017 with an increase of 5.4% during the year. Demand from India is also expected to rise in the near term with the country going into elections next year with a number of populist policies expected to be announced until elections.



Source for the above charts : OPEC and Bloomberg

Faisal Hasan, CFA

Head - Investment Research
 +(965) 2233 6907
faisal.hasan@kamconline.com

Junaid Ansari

Assistant Vice President
 +(965) 2233 6912
junaid.ansari@kamconline.com

Oil Market in 2017

A second consecutive year of oil price growth, but at a much slower pace

Oil market improved in 2017 as prices went up for the second consecutive year. However, the surge in price was much slower than in 2016. Year-end oil prices during 2017 stood at 64.5/barrel of OPEC crude which was up 21% as compared to 2016 year-end prices. Similarly, Brent spot prices stood at USD 66.7/barrel during 2017 as compared to USD 55/barrel in 2016, a surge of 21.4%. Average oil prices during the year, however, showed a different picture. OPEC crude average price during 2017 witnessed a positive gain after four consecutive years of decline. Crude averaged USD 52.4/barrel in 2017 as compared to USD 40.8/barrel in 2016, recording an increase of 28.6%. Average Brent spot prices were also high as compared to the previous year at USD 54.2/barrel in 2017 as compared to USD 43.6/barrel in 2016, recording an increase of 24.2%.

In terms of OPEC oil production in 2017, despite the production cuts announced by the OPEC members, overall production rate by the group has seen minimal decline during the year. According to data from OPEC's secondary sources, average oil production during 2017 declined by 0.6% or 203 tb/d to 32.058 mb/d as compared to 32.261 mb/d in 2016. The decline came primarily on the back of production cuts undertaken by Saudi Arabia that slashed its production by an average 456 tb/d in 2017 and produced at the rate of 9.95 mb/d as compared to 10.41 mb/d in 2016. Venezuela recorded the second biggest decline of 227 tb/d in 2017 and produced at an average rate of 1.93 mb/d. Kuwait reported the third biggest decline of 145 tb/d in 2017 and produced at an average rate of 2.71 mb/d. These aforementioned prominent declines were partially offset by higher production in Libya which increased its production by 427 tb/d to an average rate of 817 tb/d in 2017. Iran, which saw the biggest increase in production in 2016 at 679 tb/d, recorded the second highest increase in 2017 recorded at 296 tb/d and produced at an average rate of 3.81 mb/d. Nigeria also added production during 2017 and produced at 1.66 mb/d recording an increase of 107 tb/d during the year. On the non-OPEC side, US raised production by 5% to 9.3 mb/d during 2017 as compared to 8.9 mb/d during 2016. The US has seen one of the highest average production growth rates over the past five years, recorded at around 7.4%.

KAMCO Research believes 2018 would see increasing pressure on oil prices coming primarily from the US as it raises production backed by higher prices and initial signs of some incentives by the US government. Oil market will also be swayed by signs of how OPEC plans to end the ongoing pact and how gradually the production would be raised in 2019 and beyond, as these countries have continued to add capacity over the years. We see USD 70/b as a strong resistance level for oil and see higher volatility on any sign of higher production in Libya and Nigeria as well as any indication of stability and improvement in Venezuela.

| Year End Oil Prices | 2013 | 2014 | 2015 | 2016 | 2017 |
|---------------------|---------------|--------------|--------------|--------------|--------------|
| OPEC | 107.94 | 52.00 | 31.27 | 53.30 | 64.47 |
| Change (%) | -0.9% | -51.8% | -39.9% | 70.5% | 21.0% |
| Brent | 109.95 | 55.27 | 36.61 | 54.96 | 66.73 |
| Change (%) | -2.7% | -49.7% | -33.8% | 50.1% | 21.4% |

| Average Oil Price for the Year | 2013 | 2014 | 2015 | 2016 | 2017 |
|--------------------------------|---------------|--------------|--------------|--------------|--------------|
| OPEC | 105.87 | 96.29 | 49.49 | 40.76 | 52.43 |
| Change (%) | -3.3% | -9.1% | -48.6% | -17.6% | 28.6% |
| Brent | 108.55 | 98.93 | 52.33 | 43.63 | 54.17 |
| Change (%) | -2.7% | -8.9% | -47.1% | -16.6% | 24.2% |

Source : Bloomberg, KAMCO Research

| Production ('000 b/d) | 2013 | 2014 | 2015 | 2016 | 2017 | 5-Year CAGR |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Algeria | 1,159 | 1,151 | 1,109 | 1,090 | 1,044 | -2.9% |
| Change (%) | -4.2% | -0.7% | -3.6% | -1.7% | -4.2% | |
| Angola | 1,738 | 1,660 | 1,744 | 1,725 | 1,640 | -1.2% |
| Change (%) | 0.0% | -4.5% | 5.1% | -1.1% | -4.9% | |
| Ecuador | 516 | 542 | 547 | 545 | 531 | 1.3% |
| Change (%) | 3.4% | 5.0% | 0.9% | -0.4% | -2.6% | |
| Iran, I.R. | 2,673 | 2,766 | 2,836 | 3,515 | 3,811 | 5.1% |
| Change (%) | -10.2% | 3.5% | 2.5% | 23.9% | 8.4% | |
| Iraq | 3,037 | 3,265 | 3,927 | 4,392 | 4,445 | 8.3% |
| Change (%) | 1.9% | 7.5% | 20.3% | 11.8% | 1.2% | |
| Kuwait | 2,822 | 2,774 | 2,726 | 2,853 | 2,708 | -0.6% |
| Change (%) | 1.0% | -1.7% | -1.7% | 4.7% | -5.1% | |
| Libya | 928 | 473 | 404 | 390 | 817 | -10.1% |
| Change (%) | -33.4% | -49.0% | -14.6% | -3.5% | 109.5% | |
| Nigeria | 1,912 | 1,911 | 1,853 | 1,556 | 1,663 | -4.3% |
| Change (%) | -7.8% | -0.1% | -3.0% | -16.0% | 6.9% | |
| Qatar | 732 | 716 | 669 | 656 | 606 | -4.3% |
| Change (%) | -2.8% | -2.2% | -6.6% | -1.9% | -7.6% | |
| Saudi Arabia | 9,586 | 9,683 | 10,113 | 10,406 | 9,950 | 0.4% |
| Change (%) | -1.6% | 1.0% | 4.4% | 2.9% | -4.4% | |
| UAE | 2,741 | 2,761 | 2,855 | 2,979 | 2,916 | 2.1% |
| Change (%) | 4.5% | 0.7% | 3.4% | 4.3% | -2.1% | |
| Venezuela | 2,389 | 2,373 | 2,368 | 2,154 | 1,927 | -4.0% |
| Change (%) | 1.3% | -0.7% | -0.2% | -9.0% | -10.5% | |
| Total OPEC* | 30,233 | 30,075 | 31,151 | 32,261 | 32,058 | 0.6% |
| Change (%) | -2.9% | -0.5% | 3.6% | 3.6% | -0.6% | |
| US | 7,466 | 8,753 | 9,408 | 8,857 | 9,300 | 7.4% |
| Change (%) | 14.9% | 17.2% | 7.5% | -5.9% | 5.0% | |

Source : OPEC, Bloomberg, EIA, KAMCO Research

* Excludes Indonesia, Gabon, Equatorial Guinea

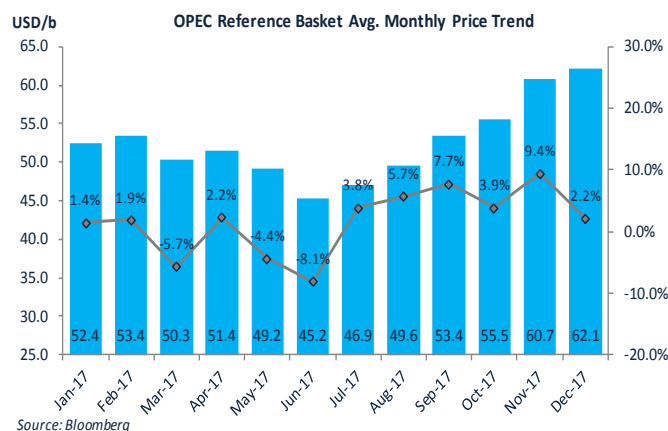
Oil Prices

Crude prices continued to surge since the start of the year continuing the momentum seen at the end of 2017 on the back of tightening oil market conditions. Spot crude prices scaled new heights reaching a 3-year high level as OPEC's restraint in cutting production coincided with rising oil demand as well as a temporary slowdown in production in the US owing to weather conditions that shut down some production facilities and resulted in a decline in crude inventories. OPEC crude prices soared to USD 67.78/barrel during January-18, the highest level since December-14, while Brent crude spot prices reached USD 70.36/barrel.

The decline in US oil production was also visible in the weekly rig count data released by Baker Hughes. After adding 10 rigs in the week ended 12-Jan-18, the highest since June-17, US oil rig count declined by 5 to reach 747 rigs during the week ended 19-Jan-18.

The surge in oil prices during the third week of January-18 was so remarkable that IEA updated its monthly report with revised view on the oil market given the higher prices. The agency now predicts a slowdown in oil demand in 2018 to a growth of 1.3 mb/d owing to the higher prices, changing pattern of oil use in China, weakness in OECD demand and the switch to natural gas in several non-OECD countries. On the supply side, IEA expects higher production in the US, Canada and Brazil will push non-OPEC supply by 1.7 mb/d in 2018 as compared to 0.7 mb/d growth in 2017.

Average crude prices continued to maintain a positive trend and were consistently up for the past six months. Average OPEC prices reached USD 62.06/barrel, recording a month-on-month gain of 2.2% in December-17. Kuwait crude grade also posted a similar gain of 2.3% to reach an average price of USD 60.93/barrel. Average Brent crude prices during December-17 reached the highest level in 37 months to USD 64.4/barrel recording a month-on-month increase of 2.4%.



| Average Crude Oil Prices, USD/b | Nov-17 | Dec-17 | Change | YTD-2016 | YTD-2017 |
|---------------------------------|-------------|-------------|------------|-------------|-------------|
| OPEC Reference Basket | 60.7 | 62.1 | 1.3 | 40.8 | 52.4 |
| Arab Light | 61.1 | 62.5 | 1.4 | 41.0 | 52.6 |
| Basrah Light | 60.2 | 61.4 | 1.2 | 39.5 | 51.9 |
| Bonny Light | 63.3 | 64.6 | 1.4 | 44.0 | 54.6 |
| Es Sider | 61.6 | 63.1 | 1.5 | 42.7 | 52.8 |
| Girassol | 63.0 | 65.0 | 2.0 | 43.6 | 54.5 |
| Iran Heavy | 59.3 | 60.9 | 1.6 | 39.6 | 51.7 |
| Kuwait Export | 59.6 | 60.9 | 1.4 | 39.3 | 51.6 |
| Qatar | 60.5 | 61.5 | 1.1 | 41.4 | 52.8 |
| Merey | 55.9 | 56.0 | 0.2 | 34.0 | 47.6 |
| Murban | 62.8 | 63.8 | 1.1 | 44.8 | 54.8 |
| Oriente | 59.2 | 59.7 | 0.4 | 38.4 | 50.0 |
| Rabi | 61.7 | 63.2 | 1.5 | 42.6 | 53.2 |
| Saharan Blend | 63.2 | 64.7 | 1.5 | 44.3 | 54.1 |
| Saharan Blend | 62.8 | 64.3 | 1.6 | 42.4 | 54.0 |
| Other Crudes | | | | | |
| Brent | 62.6 | 64.1 | 1.5 | 43.8 | 54.2 |
| Dubai | 60.8 | 61.6 | 0.8 | 41.4 | 53.1 |
| Isthmus | 61.4 | 62.6 | 1.2 | 42.4 | 54.6 |
| LLS | 62.6 | 63.3 | 0.8 | 45.0 | 54.1 |
| Mars | 59.3 | 60.2 | 0.9 | 40.1 | 50.6 |
| Minas | 55.5 | 57.0 | 1.5 | 41.1 | 49.0 |
| Urals | 62.5 | 63.8 | 1.2 | 42.2 | 53.3 |
| WTI | 56.7 | 57.9 | 1.3 | 43.3 | 50.8 |
| Differentials | | | | | |
| Brent/WTI | 6.0 | 6.2 | 0.2 | 0.5 | 3.4 |
| Brent/LLS | 0.1 | 0.8 | 0.8 | (1.2) | 0.1 |
| Brent/Dubai | 1.8 | 2.5 | 0.7 | 2.4 | 1.1 |

Source: OPEC Monthly Oil Market Report - January 2018

World Oil Demand

World oil demand growth estimates for 2017 was revised up by 43 tb/d to an average of 1.57 mb/d and total demand is expected to reach 96.99 mb/d during the year. The upgrade in demand outlook reflected better-than-expected demand data from OECD Europe and China. The OECD Europe region continues to witness strong economic momentum that led to higher demand, particularly in Q3-17 by 100 tb/d, resulting from higher consumption in the transportation and industrial sectors. In terms of individual countries, higher demand was seen in Italy, Turkey, the Netherlands, Poland, Spain and Portugal during October-17. This growth comes despite warmer weather as compared to 2016 that is expected to affect oil demand during the last two months of the year, although the weather was still colder as compared to historical norms. The transportation sector witnessed strong vehicle sales in the region with November-17 data suggesting a year-on-year

| World Oil Demand - 2016/2017, mb/d | 2016 | Q1-17 | Q2-17 | Q3-17 | Q4-17 | 2017 | Y-o-Y Growth | % Chg. |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Americas | 24.74 | 24.62 | 25.03 | 25.16 | 25.08 | 24.97 | 0.23 | 0.94 |
| of which US | 20.00 | 19.94 | 20.32 | 20.34 | 20.31 | 20.23 | 0.23 | 1.13 |
| Europe | 14.04 | 13.83 | 14.17 | 14.61 | 14.28 | 14.22 | 0.18 | 1.31 |
| Asia Pacific | 8.12 | 8.60 | 7.72 | 7.92 | 8.39 | 8.16 | 0.04 | 0.45 |
| Total OECD | 46.90 | 47.04 | 46.92 | 47.69 | 47.75 | 47.35 | 0.45 | 0.96 |
| Other Asia | 12.85 | 12.87 | 13.30 | 12.95 | 13.47 | 13.15 | 0.29 | 2.28 |
| of which India | 4.39 | 4.43 | 4.42 | 4.20 | 4.81 | 4.47 | 0.08 | 1.80 |
| Latin America | 6.47 | 6.27 | 6.51 | 6.82 | 6.46 | 6.52 | 0.05 | 0.72 |
| Middle East | 7.97 | 8.11 | 7.91 | 8.40 | 7.82 | 8.06 | 0.09 | 1.11 |
| Africa | 4.10 | 4.25 | 4.19 | 4.14 | 4.26 | 4.21 | 0.11 | 2.76 |
| Total Developing Countries (DCs) | 31.39 | 31.49 | 31.90 | 32.31 | 32.01 | 31.93 | 0.54 | 1.72 |
| Former Soviet Union (FSU) | 4.63 | 4.56 | 4.39 | 4.77 | 5.09 | 4.70 | 0.07 | 1.52 |
| Other Europe | 0.70 | 0.71 | 0.67 | 0.70 | 0.79 | 0.72 | 0.02 | 3.15 |
| China | 11.80 | 11.88 | 12.40 | 12.30 | 12.56 | 12.28 | 0.48 | 4.10 |
| Total "Other Regions" | 17.13 | 17.14 | 17.46 | 17.77 | 18.44 | 17.70 | 0.58 | 3.36 |
| Total World | 95.42 | 95.67 | 96.28 | 97.77 | 98.20 | 96.99 | 1.57 | 1.64 |

Source: OPEC Monthly Oil Market Report - January 2018

growth of 5.9%. Oil demand data from the US also indicated strong trends emanating especially from the transportation sector in addition to higher requirements for most crude categories. Preliminary weekly data for the last two months of the year indicated an overall positive trend, although gasoline demand remained flat, while the colder weather resulted in higher demand for diesel and residual fuel oil usage. A similar trend was also seen in Canada with the latest data for October-17 indicating growth in all product categories, with the only exception of LPG demand that declined as compared to the previous year.

In the non-OECD countries, oil demand data was upgraded by 30 tb/d for 2017 on the back of higher oil demand from China and India, while demand from Middle East was lowered by 10 tb/d. This decline in Middle East reflected downward revision of 30 tb/d for Q4-17 oil demand led by high level of fuel substitution in Saudi Arabia and Iraq, in addition to a general fall in demand due to higher prices. Oil demand growth for 2018 was kept largely unchanged at 1.53mb/d to reach 98.51 mb/d. China and India are expected to be key drivers of oil demand growth in 2018 owing to higher economic growth rates that will lead to higher oil consumption, particularly in the transportation sector.

| World Oil Demand - 2017/2018, mb/d | 2017 | Q1-18 | Q2-18 | Q3-18 | Q4-18 | 2018 | Y-o-Y Growth | % Chg. |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|
| Americas | 24.97 | 24.79 | 25.22 | 25.39 | 25.32 | 25.18 | 0.21 | 0.83 |
| of which US | 20.23 | 20.07 | 20.52 | 20.56 | 20.49 | 20.41 | 0.19 | 0.92 |
| Europe | 14.22 | 13.94 | 14.24 | 14.70 | 14.35 | 14.31 | 0.08 | 0.60 |
| Asia Pacific | 8.16 | 8.60 | 7.73 | 7.89 | 8.40 | 8.15 | 0.00 | (0.02) |
| Total OECD | 47.35 | 47.33 | 47.19 | 47.98 | 48.07 | 47.64 | 0.29 | 0.61 |
| Other Asia | 13.15 | 13.23 | 13.68 | 13.32 | 13.83 | 13.52 | 0.37 | 2.81 |
| of which India | 4.47 | 4.65 | 4.66 | 4.32 | 4.97 | 4.65 | 0.18 | 4.11 |
| Latin America | 6.52 | 6.36 | 6.59 | 6.91 | 6.55 | 6.60 | 0.09 | 1.30 |
| Middle East | 8.06 | 8.20 | 7.99 | 8.51 | 7.92 | 8.15 | 0.10 | 1.18 |
| Africa | 4.21 | 4.39 | 4.32 | 4.27 | 4.40 | 4.34 | 0.14 | 3.23 |
| Total Developing Countries (DCs) | 31.93 | 32.17 | 32.59 | 33.00 | 32.70 | 32.62 | 0.69 | 2.15 |
| Former Soviet Union (FSU) | 4.70 | 4.66 | 4.50 | 4.89 | 5.20 | 4.82 | 0.12 | 2.45 |
| Other Europe | 0.72 | 0.73 | 0.69 | 0.73 | 0.82 | 0.74 | 0.03 | 3.48 |
| China | 12.28 | 12.28 | 12.81 | 12.71 | 12.97 | 12.69 | 0.41 | 3.34 |
| Total "Other Regions" | 17.70 | 17.67 | 18.01 | 18.33 | 19.00 | 18.25 | 0.55 | 3.11 |
| Total World | 96.99 | 97.17 | 97.79 | 99.30 | 99.77 | 98.51 | 1.53 | 1.57 |

Source: OPEC Monthly Oil Market Report - January 2018

World Oil Supply

In terms of global oil supply, December-17 witnessed a big month-on-month jump of 0.4 mb/d and averaged at 97.49 mb/d primarily on the back of higher non-OPEC supply that grew by 0.34 mb/d during the month and averaged at 58.62 mb/d. The increase was primarily on the back of higher supply from Canada, Mexico, Norway, Brazil and Kazakhstan partially offset by a decline in production in the US and the UK. For the full year 2017, non-OPEC supply growth estimates were lowered by 0.04 mb/d and is now expected to grow by 0.77 mb/d to average at 57.79 mb/d during the year. The downward revision primarily reflects lower oil supply from OECD (-28 tb/d) and Developing Countries (-35 tb/d), while the oil supply forecast for the FSU was revised up by 32 tb/d. In OECD Americas, supply growth estimates for US and Canada were revised upwards by 16 tb/d and 11 tb/d, while it was lowered in the case of Mexico. On the other

| Non-OPEC Oil Supply - 2016/2017, mb/d | 2016 | Q1-17 | Q2-17 | Q3-17 | Q4-17 | 2017 | Y-o-Y Growth | % Chg. |
|---|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| Americas | 20.61 | 21.08 | 20.91 | 21.34 | 21.96 | 21.33 | 0.72 | 3.47 |
| of which US | 13.63 | 13.79 | 14.08 | 14.28 | 14.86 | 14.26 | 0.62 | 4.57 |
| Europe | 3.81 | 3.94 | 3.80 | 3.67 | 3.75 | 3.79 | (0.02) | (0.45) |
| Asia Pacific | 0.42 | 0.39 | 0.39 | 0.41 | 0.41 | 0.40 | (0.02) | (5.88) |
| Total OECD | 24.84 | 25.41 | 25.10 | 25.42 | 26.12 | 25.51 | 0.67 | 2.71 |
| Other Asia | 3.72 | 3.68 | 3.61 | 3.59 | 3.59 | 3.62 | (0.10) | (2.72) |
| Latin America | 5.10 | 5.20 | 5.20 | 5.19 | 5.23 | 5.20 | 0.10 | 1.97 |
| Middle East | 1.28 | 1.24 | 1.24 | 1.24 | 1.24 | 1.24 | (0.04) | (2.91) |
| Africa | 1.80 | 1.80 | 1.83 | 1.85 | 1.90 | 1.85 | 0.05 | 2.64 |
| Total Developing Countries (DCs) | 11.90 | 11.91 | 11.89 | 11.88 | 11.95 | 11.91 | 0.01 | 0.08 |
| Former Soviet Union (FSU) | 13.86 | 14.13 | 14.14 | 13.90 | 14.07 | 14.06 | 0.20 | 1.44 |
| of which Russia | 11.08 | 11.25 | 11.24 | 11.06 | 11.14 | 11.17 | 0.09 | 0.79 |
| Other Europe | 0.13 | 0.12 | 0.12 | 0.13 | 0.12 | 0.12 | (0.01) | (4.94) |
| China | 4.10 | 4.02 | 4.02 | 3.93 | 3.94 | 3.98 | (0.12) | (2.87) |
| Total "Other regions" | 18.09 | 18.27 | 18.28 | 17.95 | 18.14 | 18.16 | 0.08 | 0.42 |
| Total Non-OPEC Production | 54.82 | 55.59 | 55.27 | 55.26 | 56.21 | 55.58 | 0.76 | 1.38 |
| Processing gains | 2.19 | 2.21 | 2.21 | 2.21 | 2.21 | 2.21 | 0.01 | 0.50 |
| Total Non-OPEC Supply | 57.02 | 57.80 | 57.48 | 57.46 | 58.41 | 57.79 | 0.77 | 1.35 |
| OPEC NGLs and non-conventionals | 6.14 | 6.20 | 6.26 | 6.35 | 6.42 | 6.31 | 0.17 | 2.77 |
| OPEC Crude Oil Production | 32.64 | 32.11 | 32.28 | 32.73 | 32.45 | 32.39 | (0.25) | (0.77) |
| Total World Supply | 95.80 | 96.11 | 96.02 | 96.54 | 97.28 | 96.49 | 0.69 | 0.72 |

Source: OPEC Monthly Oil Market Report - January 2018

hand, supply estimates for OECD Europe were lowered particularly for Norway and UK that affected the overall downward revision for OECD countries for 2017. In the non-OECD group, oil supply from China increased by 0.05 mb/d during November-17, although the average for the first eleven months of 2017 showed a decline of 0.14 mb/d compared to the same period in 2016.

Non-OPEC supply growth projection for 2018 was revised up by 0.16 mb/d to 1.15 mb/d and is expected to average at 58.94 mb/d. The revision primarily reflects higher-than-expected supply estimates from the US, Canada, Mexico and the UK partially offset by expected decline in supply from Norway and Argentina.

| Non-OPEC Oil Supply - 2017/2018, mb/d | 2017 | Q1-18 | Q2-18 | Q3-18 | Q4-18 | 2018 | Y-o-Y Growth | % Chg. |
|---|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| Americas | 21.33 | 22.41 | 22.46 | 22.58 | 22.88 | 22.58 | 1.26 | 5.90 |
| of which US | 14.26 | 15.11 | 15.35 | 15.49 | 15.65 | 15.40 | 1.15 | 8.04 |
| Europe | 3.79 | 3.78 | 3.79 | 3.70 | 3.90 | 3.79 | 0.00 | 0.12 |
| Asia Pacific | 0.40 | 0.39 | 0.42 | 0.43 | 0.44 | 0.42 | 0.02 | 5.26 |
| Total OECD | 25.51 | 26.58 | 26.67 | 26.71 | 27.22 | 26.80 | 1.28 | 5.04 |
| Other Asia | 3.62 | 3.60 | 3.59 | 3.58 | 3.55 | 3.58 | (0.04) | (0.98) |
| Latin America | 5.20 | 5.29 | 5.28 | 5.42 | 5.33 | 5.33 | 0.13 | 2.40 |
| Middle East | 1.24 | 1.24 | 1.24 | 1.24 | 1.24 | 1.24 | 0.00 | (0.24) |
| Africa | 1.85 | 1.89 | 1.89 | 1.90 | 1.90 | 1.90 | 0.05 | 2.68 |
| Total Developing Countries (DCs) | 11.91 | 12.03 | 12.00 | 12.13 | 12.02 | 12.05 | 0.14 | 1.15 |
| Former Soviet Union (FSU) | 14.06 | 13.97 | 13.94 | 13.81 | 13.94 | 13.92 | (0.14) | (1.02) |
| of which Russia | 11.17 | 10.98 | 10.98 | 10.98 | 10.98 | 10.98 | (0.19) | (1.71) |
| Other Europe | 0.12 | 0.13 | 0.13 | 0.13 | 0.12 | 0.13 | 0.00 | 1.37 |
| China | 3.98 | 3.89 | 3.80 | 3.79 | 3.79 | 3.82 | (0.16) | (4.05) |
| Total "Other regions" | 18.16 | 17.99 | 17.87 | 17.73 | 17.85 | 17.86 | (0.30) | (1.66) |
| Total Non-OPEC Production | 55.58 | 56.59 | 56.55 | 56.57 | 57.10 | 56.70 | 1.12 | 2.01 |
| Processing gains | 2.21 | 2.23 | 2.23 | 2.23 | 2.23 | 2.23 | 0.03 | 1.32 |
| Total Non-OPEC Supply | 57.79 | 58.83 | 58.78 | 58.80 | 59.33 | 58.94 | 1.15 | 1.99 |

Source: OPEC Monthly Oil Market Report - January 2018

OPEC Oil Production & Spare Capacity

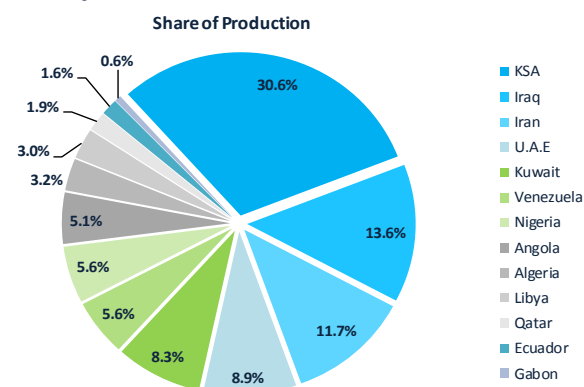
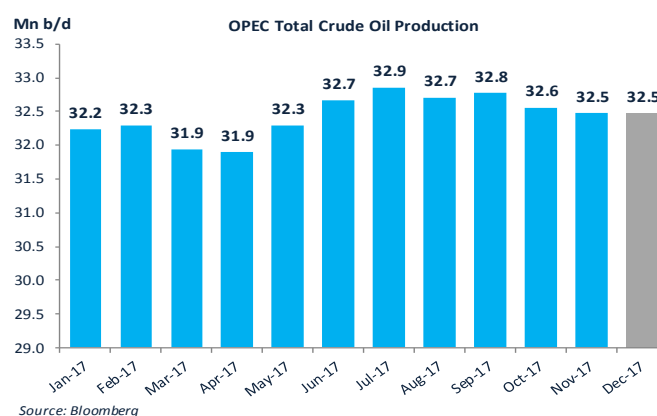
According to Bloomberg data, OPEC production remained flat month-on-month during December-17, although individual country production did see some minor changes. Among the prominent ones, the increase in production in Nigeria, Iraq, Angola and Algeria were offset by lower production in Venezuela, Libya, Iran and Saudi Arabia. This led to an increase in compliance to the ongoing production cut agreement pushing it to 129% in December-17. Production in Saudi Arabia continued to remain below the critical 10 mb/d mark at 9.95 mb/d, the lowest level of production since May-17. The production disruption in Libya during the last week of December-17 resulted in a output decline in the country while mounting problems in Venezuela has severely affected the country's ability to produce oil in line with historical levels. The latter continues to see production decline at an accelerated pace owing to the deepening economic and

| Production ('000 b/d) | Dec-16 | Nov-17 | Dec-17 | Change Y-o-Y | | Change M-o-M | | Capacity | Spare Capacity |
|-----------------------|---------------|---------------|---------------|--------------|--------------|--------------|---------------|---------------|----------------|
| Total OPEC-14 | 33,260 | 32,470 | 32,470 | -790 | -2.4% | 0 | 0.0% | 36,845 | 4,375 |
| KSA | 10,480 | 9,970 | 9,950 | -530 | -5.1% | -20 | -0.2% | 11,500 | 1,550 |
| Iraq | 4,610 | 4,390 | 4,420 | -190 | -4.1% | 30 | 0.7% | 4,700 | 280 |
| Iran | 3,730 | 3,820 | 3,800 | 70 | 1.9% | -20 | -0.5% | 4,000 | 200 |
| U.A.E | 3,070 | 2,880 | 2,880 | -190 | -6.2% | 0 | 0.0% | 3,150 | 270 |
| Kuwait | 2,890 | 2,700 | 2,690 | -200 | -6.9% | -10 | -0.4% | 3,000 | 310 |
| Venezuela | 2,080 | 1,860 | 1,810 | -270 | -13.0% | -50 | -2.7% | 2,500 | 690 |
| Nigeria | 1,450 | 1,780 | 1,820 | 370 | 25.5% | 40 | 2.2% | 2,200 | 380 |
| Angola | 1,670 | 1,610 | 1,640 | -30 | -1.8% | 30 | 1.9% | 1,870 | 230 |
| Algeria | 1,110 | 1,010 | 1,030 | -80 | -7.2% | 20 | 2.0% | 1,150 | 120 |
| Libya | 630 | 1,000 | 970 | 340 | 54.0% | -30 | -3.0% | 970 | 0 |
| Qatar | 620 | 600 | 610 | -10 | -1.6% | 10 | 1.7% | 780 | 170 |
| Ecuador | 550 | 520 | 520 | -30 | -5.5% | 0 | 0.0% | 555 | 35 |
| Gabon | 210 | 200 | 200 | -10 | -4.8% | 0 | 0.0% | 220 | 20 |
| Equatorial Guinea | 160 | 130 | 130 | -30 | -18.8% | 0 | 0.0% | 250 | 120 |
| Total OPEC-13 | 27,860 | 28,080 | 28,050 | -600 | 0.68% | -30 | -0.11% | 32,145 | 4,095 |

Source: Bloomberg, OPEC

humanitarian crisis in the country. Meanwhile, Nigeria which is exempt from the ongoing pact, increased production by 40 tb/d during December-17 as the country continues to make several changes in its oil industry, including passing a historic legislation in the country. An additional 80-100 tb/d of oil is expected to be added to Nigeria's oil production by one of its oil producers, Shoreline Group, after the company signed a financing deal with Vitol Group and local lenders.

The dramatic run up in oil prices during the end of 2017 and the start of 2018 has also rattled OPEC and non-OPEC producers that are a part of the production cut pact. The earlier-than-expected rise in oil prices has the potential to push shale production even higher and completely blunt the aforementioned producer's effort to push oil prices higher by voluntarily curbing oil production to rebalance the market marred with chronic oversupply. There are already indications that if oil prices remain above USD 70/b for long, it would force some of the bigger producers to raise the production and take advantage of the higher prices instead of just US shale producers enjoying the full advantage. Nevertheless, the energy ministers of UAE, Qatar and Iraq have, in separate interviews, assured that their plan is to stick to the pact and they continue to eye global inventories to come down to five year average before reviewing the accord.



Brent Crude Oil Price Forecast by Various Research Houses

| Firm | Analyst | As Of | Q1 18 | Q2 18 | Q3 18 | Q4 18 |
|---|-------------------|-----------|-------------|-------------|-------------|-------------|
| Itau Unibanco Holding SA | A. Passos | 17/Jan/18 | 65.0 | 62.0 | 59.0 | |
| Landesbank Baden-Wuerttemberg | F. Schallenberger | 17/Jan/18 | 67.0 | 65.0 | 65.0 | 65.0 |
| Intesa Sanpaolo SpA | D. Corsini | 16/Jan/18 | 67.0 | 65.0 | 65.0 | 65.0 |
| Wells Fargo Securities LLC | R. Read | 11/Jan/18 | 63.0 | 57.8 | 54.8 | 57.5 |
| Banco Santander SA | J. Kenney | 10/Jan/18 | 54.2 | 64.0 | 59.0 | 54.0 |
| Bank of China International UK Ltd | X. Fu | 10/Jan/18 | 62.0 | 64.0 | 64.0 | 60.0 |
| Capital Economics Ltd | T. Pugh | 8/Jan/18 | 63.5 | 59.0 | 57.0 | 55.5 |
| Market Risk Advisory Co Ltd | N. Niimura | 8/Jan/18 | 64.0 | 62.0 | 64.0 | 65.0 |
| Promsvyazbank PJSC | E. Krylova | 26/Dec/17 | 63.0 | 67.0 | 61.5 | 58.0 |
| Bank of Nova Scotia/The | M. Loewen | 21/Dec/17 | 58.0 | 62.0 | 63.0 | 64.9 |
| Citigroup Inc | E. Morse | 20/Dec/17 | 57.0 | 54.0 | 54.0 | 52.0 |
| Raiffeisen Bank International AG | H. Loacker | 19/Dec/17 | 58.0 | 56.0 | 57.0 | 59.0 |
| Oversea-Chinese Banking Corp Ltd | B. Gan | 14/Dec/17 | 59.0 | 61.0 | 63.0 | 70.0 |
| Commerzbank AG | E. Weinberg | 11/Dec/17 | 53.0 | 55.0 | 58.0 | 60.0 |
| Norddeutsche Landesbank Girozentrale | F. Kunze | 5/Dec/17 | 63.0 | 62.0 | 62.0 | 62.0 |
| DZ Bank AG Deutsche Zentral-Genossenschaftsbank | A. Herlinghaus | 4/Dec/17 | 58.0 | 55.0 | 56.0 | 58.0 |
| Guggenheim Securities LLC | M. Lamotte | 30/Nov/17 | 63.5 | 66.0 | 67.0 | 67.5 |
| Lloyds Bank PLC | C. Paraskevas | 30/Nov/17 | 62.0 | 65.0 | 65.0 | 67.0 |
| Prestige Economics LLC | J. Schenker | 27/Nov/17 | 64.0 | 65.0 | 64.0 | 63.0 |
| Societe Generale SA | M. Wittner | 22/Nov/17 | 58.0 | 56.0 | 60.0 | 58.0 |
| Toronto-Dominion Bank/Toronto | B. Melek | 16/Nov/17 | 64.0 | 63.0 | 64.0 | 64.0 |
| ABN AMRO Bank NV | H. Van Cleef | 16/Nov/17 | 65.0 | 68.0 | 70.0 | 73.0 |
| BNP Paribas SA | H. Tchilinguirian | 2/Nov/17 | 55.0 | 52.0 | 54.0 | 57.0 |
| Westpac Banking Corp | J. Smirk | 23/Oct/17 | 48.0 | 46.0 | 43.0 | 41.0 |
| Deutsche Bank AG | M. Hsueh | 12/Oct/17 | 53.0 | | | |
| CIBC World Markets Inc | J. Pinto | 29/Sep/17 | 54.5 | | | |
| Schneider Electric SE | K. Liu | 6/Sep/17 | 54.9 | | | |
| DNB ASA | T. Kjus | 3/Aug/17 | 60.0 | | | |
| Promsvyazbank PJSC | S. Narkevich | 31/Jul/17 | 49.2 | 51.3 | 53.4* | 52.8* |
| HSH Nordbank AG | J. Edelmann | 6/Jul/17 | 48* | 46* | 44* | 46* |
| NE Nomisma Energia Srl | M. Mazzoni | 5/Jul/17 | 51* | 52.3* | 53.5* | 54.6* |
| Bank of Tokyo-Mitsubishi UFJ Ltd/The | E. Khoman | 3/Jul/17 | 58.7* | 59.6* | 61.2* | 61.4* |
| Citigroup Inc | A. Doshi | 30/Jun/17 | 59* | 63* | 61* | 58* |
| Danske Bank A/S | J. Pedersen | 19/Jun/17 | 56* | 57* | 58* | 59* |
| Natixis SA | Natixis SA | 31/May/17 | 58* | 58* | 62* | 64* |
| Standard Chartered Bank | P. Horsnell | 26/May/17 | 62* | 59* | 59* | 62* |
| Barclays PLC | M. Cohen | 26/Apr/17 | 65* | 63* | 69* | 72* |
| UniCredit Bank AG | J. Hitzfeld | 25/Apr/17 | 60* | 63* | 65* | 60* |
| Incrementum AG | R. Stoeferle | 6/Apr/17 | 75* | 80* | 76* | 75* |
| Median | | | 60.0 | 62.0 | 61.8 | 60.0 |
| Mean | | | 59.5 | 60.1 | 60.4 | 60.7 |
| High | | | 67.0 | 68.0 | 70.0 | 73.0 |
| Low | | | 48.0 | 46.0 | 43.0 | 41.0 |
| Current Fwd | | | 68.9 | 68.0 | 66.9 | 65.7 |
| Difference (Median - Current) | | | -8.9 | -6.0 | -5.1 | -5.7 |

Source: Bloomberg

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KAMCO Investment Company

Al-Shaheed Tower, Khalid Bin Al-Waleed Street- Sharq

P.O. BOX : 28873, Safat 13149, State of Kuwait

Tel: (+965) 1852626 Fax: (+965) 22492395

Email : Kamcoird@kamconline.com

Website : <http://www.kamconline.com>